

SOUTH DALLAS COUNTY LANDFILL AGENCY

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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South Dallas County Landfill Agency

Officials

Name

Title

Shirley McAdon

Chairperson

Vickie Moorhead

Secretary-Treasurer

South Dallas County Landfill Agency

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Independent Auditors' Report

To the Members of South Dallas County Landfill Agency:

We have audited the accompanying component unit financial statements of South Dallas County Landfill Agency a component unit of the City of Adel, Iowa, as of and for the year ended June 30, 2004. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of South Dallas County Landfill Agency as of and for the year ended June 30, 2004 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 12, during the year ended June 30, 2004, South Dallas County Landfill Agency adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2004 on our consideration of South Dallas County Landfill Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 8 through 11 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

September 29, 2004
Ames, Iowa

South Dallas County Landfill Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

South Dallas County Landfill Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the South Dallas County Landfill Agency is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- ◆ The Agency's operating receipts decreased approximately 5.9%, or \$46,226, from fiscal 2003 to fiscal 2004 while operating disbursements increased approximately \$89,404 or 34% for the same period.
- ◆ The Agency's Closure/PostClosure revenues decreased \$161,385, or 79%, and disbursements increased \$7,616 or 26% from fiscal 2003 to fiscal 2004.
- ◆ The Agency's net assets increased 9.8%, or approximately \$390,609, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Agency has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles (GAAP). Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Agency's cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Agency's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the South Dallas County Landfill Agency's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Statement of Net Assets – Cash Basis presents information on the Agency's net assets, including balances restricted for specific purposes and unrestricted balances available for operating activities.
- The Statement of Cash Receipts, Disbursements and Changes in Net Assets - Cash Basis presents information on the Agency's operating receipts and disbursements, non-operating receipts and disbursements and whether the Agency's financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE AGENCY

Statement of Net Assets – Cash Basis

The Statement of Net Assets – Cash Basis presents the assets and net assets of the Agency at the end of the fiscal year. The Statement of Net Assets – Cash Basis is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the Agency to the readers of the financial statements.

Over time, readers of the financial statements are able to determine the Agency's financial position by analyzing the increases and decreases in net assets.

Assets and Net Assets		
	June 30,	
	2004	2003
Assets		
Cash, cash equivalents and investments:		
Restricted	\$1,147,687	1,141,903
Unrestricted	3,221,806	2,836,981
Total assets	<u>\$4,369,493</u>	<u>3,978,884</u>
Net Assets		
Restricted for:		
Closure	\$ 41,445	40,122
Closure/postclosure operations	409,400	426,763
Postclosure care	696,842	675,018
Unrestricted:		
General operations	2,392,709	2,033,038
Capital improvement	829,097	803,943
Total net assets	<u>\$4,369,493</u>	<u>3,978,884</u>

A portion of the Agency's net assets (26%) is restricted for closure and postclosure care. State and federal laws and regulations require the Agency to place a final cover on the landfill site and perform certain maintenance and monitoring functions at the landfill site for a minimum of thirty years after closure. The remaining net assets (74%) are the unrestricted net assets that can be used to meet the Agency's obligations as they come due. Restricted net assets increased \$5,784, during the year due to interest on investments. Unrestricted net assets increased \$384,825, or 14%, during the year. Note: An annual transfer of \$39,584 from operations to settlement (closure) funds was not made during FY04 and will be reflected in FY05.

Statement of Cash Receipts, Disbursements and Changes in Net Assets – Cash Basis

Changes in total net assets as presented on the Statement of Net Assets - Cash Basis are based on the activity presented in the Statement of Cash Receipts, Disbursements and Changes in Net Assets - Cash Basis. The purpose of the statement is to present the receipts received by the Agency and the disbursements paid by the Agency, both operating and non-operating.

Operating receipts are received for gate fees from accepting solid waste and assessments from the members of the Agency. Operating disbursements are disbursements paid to operate the landfill. Non-operating receipts and disbursements are for interest on investments. A summary of cash receipts, disbursements and changes in net assets for the years ended June 30, 2004 and June 30, 2003 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2004	2003
Operating Funds		
General Operations		
Receipts	\$ 710,997	753,426
Disbursements	351,326	261,922
Transfers in (out)	-	(219,584)
Capital Improvements		
Receipts	25,154	28,951
Disbursements	-	-
Transfers in (out)	-	180,000
Increase in net assets - cash basis	384,825	480,871
Net assets beginning of year	2,836,981	2,356,110
Net assets end of year	3,221,806	2,836,981
Closure/Postclosure Funds		
Receipts	42,528	203,913
Disbursements	36,744	29,128
Transfers in (out)	-	39,584
Increase in net assets - cash basis	5,784	214,369
Net assets beginning of year	1,141,903	927,534
Net assets end of year	1,147,687	1,141,903
Net assets end of year - all funds	\$ 4,369,493	3,978,884

In fiscal 2004, operating receipts decreased by \$46,226, or 5.9%. The decrease was primarily a result of less tonnage received. Operating disbursements increased by \$89,404, or 34% due mainly to increased equipment expense and contract agreement with Metro Waste Authority.

Closure/postclosure receipts reduced dramatically due mainly to the final litigation settlement payments of \$152,750 from Dallas County and Waukeg having been received in FY 2003.

LONG-TERM DEBT

The Agency has no long term debt.

ECONOMIC FACTORS

South Dallas County Landfill Agency continued to improve its financial position during the 2004 fiscal year. However, the current condition of the economy in the state continues to be a concern for Agency officials. Some of the realities that may potentially become challenges for the Agency to meet are:

- ◆ Facilities require constant maintenance and upkeep.

- ◆ While the Agency supports construction and demolition recycling facilities currently operating in the Metro area, it is unknown at this time what impact these facilities will have on current tonnage levels and subsequent revenue. This issue will present a challenge as the Agency strives to provide services at a reasonable cost to its customers.
- ◆ Annual deposits required to be made to closure and postclosure accounts are based on constantly changing cost estimates and the number of tons of solid waste received at the facility.
- ◆ The Agency anticipates the current fiscal year will show increased expenditures due to construction of the Phase II Expansion area and the addition of management staff.
- ◆ The Agency will continue to monitor its resources and expenditures in order to maintain the Agency's ability to react to unknown issues.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact South Dallas County Landfill Agency, Adel, Iowa.

Basic Financial Statements

South Dallas County Landfill Agency

Statement of Net Assets – Cash Basis

June 30, 2004

Assets

Cash, cash equivalents and investments

Restricted	\$ 1,147,687
Unrestricted	<u>3,221,806</u>

Total assets	<u><u>\$ 4,369,493</u></u>
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Net assets

Restricted for:

Closure/postclosure operations	\$ 409,400
Closure	
Phase I closure	41,445
Postclosure care	
Phase I postclosure	153,473
NW/SE postclosure	<u>543,369</u>

Total restricted net assets	<u>1,147,687</u>
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Unrestricted	<u>3,221,806</u>
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Total net assets	<u><u>\$ 4,369,493</u></u>
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See notes to financial statements.

South Dallas County Landfill Agency
Statement of Cash Receipts, Disbursements and
Changes in Net Assets – Cash Basis

As of and for the year ended June 30, 2004

Operating receipts:	
Covering fees	\$ 15,912
Gate charges	619,270
Interest	97,180
Refunds and miscellaneous	3,789
Total operating receipts	<u>736,151</u>
Operating disbursements:	
Salaries and payroll taxes	108,420
Employee benefits	23,338
Solid waste contract	45,933
Recycling fees	18,185
Department of Natural Resources tonnage fee	8,763
Expansion	13,630
Engineering and consulting	15,123
Repairs and maintenance	41,093
Fuel	14,480
Insurance	12,364
Mileage	129
Utilities	1,853
Telephone	759
Sales tax	467
Miscellaneous	4,861
Office supplies	7,462
Dirt	34,466
Total operating disbursements	<u>351,326</u>
Excess of operating receipts over operating disbursements	<u>384,825</u>
Non-operating receipts (disbursements):	
Interest on investments	35,812
Litigation settlements	6,716
Engineering and consulting	(1,781)
Monitoring and inspection fees	(4,346)
Repairs and maintenance	(21,699)
Dirt	(3,950)
Utilities	(350)
Miscellaneous	(118)
Fuel	(4,500)
Total non-operating receipts (disbursements)	<u>5,784</u>
Change in cash basis net assets	390,609
Net assets - cash basis beginning of year	<u>3,978,884</u>
Net assets - cash basis end of year	<u>\$ 4,369,493</u>

See notes to financial statements.

South Dallas County Landfill Agency

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

South Dallas County Landfill Agency was formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Agency is to develop, operate and maintain solid waste and recycling facilities for the political subdivisions of South Dallas County.

The governing body of the Agency is composed of one representative from the member city, Adel. The chairperson is appointed by the participating political subdivision and has one vote.

The Agency is a component unit of the City of Adel. The accompanying financial statements include only the activities of the Agency. Financial statements for the City of Adel can be obtained by contacting the City Hall in Adel.

A. Reporting Entity

For financial reporting purposes, South Dallas County Landfill Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Agency are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

South Dallas County Landfill Agency maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Agency are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including the estimated payables for closure and postclosure care costs. Accordingly, the financial statements do not present the financial position and results of operations of the Agency in accordance with U.S. generally accepted accounting principles.

D. Assets and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets – Cash Basis.

Cash Equivalents – The Agency considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets and Net Assets – Funds set aside for payment of closure and postclosure care costs are classified as restricted.

(2) Cash and Investments

The Agency's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Agency; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year end. The Agency's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

The Agency's investments at June 30, 2004 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government securities	<u>\$ 2,483,245</u>	<u>\$ 2,441,940</u>

The U.S. Government securities are reported at cost.

(3) Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State

of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The Agency's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$5,958 \$5,524 and \$5,249, respectively, equal to the required contributions for each year.

(4) Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation leave and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Agency until used or paid. The Agency's approximate liability to employees for earned vacation leave and compensatory time at June 30, 2004 is as follows:

Type of Benefit	Amount
Vacation	\$ 7,119
Compensatory time	<u>146</u>
	<u>\$ 7,265</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(5) Closure and Postclosure Care Costs

To comply with federal and state regulations, the Agency is required to complete a monitoring system plan and a closure/postclosure plan to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total cost consists of four components: (1) the cost of equipment and facilities used in postclosure monitoring care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based

on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

The Agency has an area of the landfill that has been closed and no longer accepting waste. Those areas that remain open to accept waste are referred to below as the open areas. The total costs for South Dallas County Landfill Agency as of June 30, 2004 have been estimated at \$90,246 and \$306,450 for closure and postclosure, respectively in the Agency's open areas and \$499,050 for postclosure in the Agency's closed area, for a total of \$895,746. The estimated remaining life of the landfill is 35 years, with approximately 20 percent of the landfill's capacity used at June 30, 2004.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Agency has begun to accumulate resources to fund these costs and, at June 30, 2004, assets of \$738,287 are restricted for these purposes, of which \$41,445 and \$153,473 are for closure and postclosure care, respectively in the Agency's open areas and \$543,369 is for postclosure care in the Agency's closed area. They are reported as restricted assets and restricted net assets on the Statement of Net Assets – Cash Basis.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs of the open area are not fully funded, the Agency is required to demonstrate financial assurance for the unfunded costs. The Agency has adopted the local government dedicated fund mechanism.

Chapter 567-111.8(7) of the IAC allows a government to choose the Dedicated Fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the Agency is not required to establish closure and postclosure care accounts in addition to the accounts established to comply with the Dedicated Fund financial assurance mechanism.

(6) Solid Waste Tonnage Fees Retained

The Agency retains solid waste tonnage fees in accordance with Chapter 455B.310 of the Code of Iowa. At June 30, 2004, the Agency had no unspent tonnage fees.

(7) Risk Management

The Agency is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis

rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Agency's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Agency's annual contributions to the Pool for the year ended June 30, 2004 were \$5,472.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Agency does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the Agency's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage in any of the past three fiscal years.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal and the member's proportionate share of any capital deficiency.

The Agency also carries commercial insurance purchased from other insurers for coverage associated with the surety bond in the amount of \$5,000. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Solid Waste Contract

South Dallas County Landfill Agency entered into a solid waste contract commencing July 1, 2003 with Metro Waste Authority. Under the contract, the Authority is paid a per ton fee for waste accepted by the Agency, originating in the Authority's service area, and the Agency is paid a per ton fee for waste accepted by the Authority, originating in the Agency's service area. \$45,933 was paid to the Authority, and \$1,366 was received from the Authority during the year ended June 30, 2004.

(9) Household Hazardous Waste Agreement

The Agency entered into a waste collection agreement with Metro Waste Authority. The Authority operates a collection center for household hazardous waste. The Agency pays the Authority for training and education to operate a collection site, and for collection and disposal services. The Agency paid an annual per capita fee of \$3,301 during the year ended June 30, 2004 for the services.

(10) Related Party Transactions

The Agency had business transactions with the City of Adel totaling \$15,912.

(11) Construction Commitment

The Agency entered into a construction contract totaling \$179,308, none of which has been paid as of June 30, 2004.

(12) Accounting Change

For the year ended June 30, 2004, the Agency implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these standards had no effect on the beginning balances of the Agency.

South Dallas County Landfill Agency

Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting

South Dallas County Landfill Agency

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Members of South Dallas County Landfill Agency:

We have audited the financial statements of South Dallas County Landfill Agency as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. Our report expressed an unqualified opinion on the component unit financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Dallas County Landfill Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instance of non-compliance required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Dallas County Landfill Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South Dallas County Landfill Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A), (B) and (C) are material weaknesses. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the members and customers of South Dallas County Landfill Agency and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South Dallas County Landfill Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 29, 2004
Ames, Iowa

South Dallas County Landfill Agency

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – During our review of internal controls, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Agency's financial statements. Generally, one individual has control over the account billings, collecting, depositing, posting and reconciling of receipts, for which no compensating controls exist.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Current personnel should be utilized to provide additional control through review of financial transactions and reconciliations. Such reviews should be performed by independent persons to the extent possible and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – Current personnel will be utilized to maximize additional control.

Conclusion – Response accepted.

- (B) Board – The board consists of one member who has complete authority.

Recommendation – The Agency should review the procedures for appointing members to the board and consider adding additional board members.

Response – We will consider this.

Conclusion – Response accepted.

- (C) Receipts – Receipts are not being charged at the rates set by the governing board. In addition, the charges are subject to adjustment and discrimination by employees.

Recommendation – The Agency should review the procedures for charges.

Response – We will consider this.

Conclusion – Response accepted.

- (D) Invoices – Invoices were not properly cancelled to prevent reuse.

Recommendation – Invoices should be cancelled in the future.

South Dallas County Landfill Agency

Schedule of Findings

Year ended June 30, 2004

Response – We will consider this.

Conclusion – Response accepted.

South Dallas County Landfill Agency

Schedule of Findings

Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming official depositories has been approved by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- (4) Agency Minutes – Several transactions were found that we believe should have been approved in the Agency minutes but were not.

Recommendation – The Board should approve all disbursements and document approval in the minutes.

Response – We will consider this.

Conclusion – Response accepted.

- (5) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Agency's investment policy were noted.
- (6) Solid Waste Tonnage Fees Retained – During the year ended June 30, 2004, the Agency used or retained the solid waste fees in accordance with Chapters 455B.310(3) and (4) of the Code of Iowa.
- (7) Financial Assurance – The Agency has demonstrated financial assurance for closure and postclosure care costs by establishing a dedicated fund as required by Chapter 111.6(9) of the Iowa Administrative Code. The calculation is made as follows:

	<u>Closure</u>	<u>Postclosure</u>
Total estimated costs for closure and postclosure care	\$ 90,246	306,450
Less: Balance of funds held in the local dedicated fund at June 30, 2003	<u>(40,122)</u>	<u>(148,491)</u>
	50,124	157,959
Divided by the number of years remaining in the pay-in period	<u>÷ 5</u>	<u>÷ 5</u>
	10,025	31,592
Add: deficiency in local dedicated fund at June 30, 2003	<u>-</u>	<u>-</u>

South Dallas County Landfill Agency

Schedule of Findings

Year ended June 30, 2004

Required payment into the local dedicated fund for the year ended June 30, 2004	10,025	31,592
Balance of funds held in the local dedicated fund at June 30, 2003	<u>40,122</u>	<u>148,491</u>
Required balance of funds to be held in the local dedicated fund at June 30, 2004	<u>\$ 50,147</u>	<u>180,083</u>
Amount Agency has restricted for closure and postclosure care at June 30, 2004	<u>\$ 41,445</u>	<u>153,473</u>

Although the Agency has established dedicated funds for financial assurance, the required balance has not been met.

Recommendation – The Agency should make transfers to bring the funds to the required balance.

Response – We will do so

Conclusion – Response accepted.

- (8) Forms W-2, W-3 and 941's – The Agency filed incorrect Forms W-2 and W-3 with the Internal Revenue Service for the year ended December 31, 2003. The Agency also filed incorrect Form 941's.

Recommendation – The Agency should file corrected Forms W-2, W-3 and 941's.

Response – We will do so

Conclusion – Response accepted.

- (9) Form 1099's – The Agency did not properly prepare Form 1099's as required by the Internal Revenue Service.

Recommendation – The Agency should prepare 1099's as required.

Response – We will do so

Conclusion – Response accepted.

